Unitronics (1989) (R"G) LTD.

Quarterly Report as of June 30, 2007

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This Report contains forward-looking information within the meaning of Section 32A of the Israeli Securities Law, 5728-1968, including forecasts, estimations, assessments, expectations or other information pertaining to future events or issues, the occurrence of which is uncertain and not solely under the Company's control, if at all. This information is identified as such where it is used in this report. Although such information is based on data available to the Company as of the date of the Report, and reflects the Company's intents and estimates as of such date, the actual occurrences and/or results may vary substantially from those presented in the Report or implied therefrom as projected or anticipated since their occurrence is subject, *inter alia*, to uncertainties and other factors beyond the Company's control as set out in this Report below.

CHAPTER A – PREFACE

1. General

Company Name:	Unitronics (1989) (R"G) Ltd. (hereinafter: th e "**Company**" or "**Unitronics**")
Company No.:	520044199
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2. Description of the Company and its business environment

Unitronics is engaged through its Products Department in the design, development, production, marketing, sale and support of industrial automation products, mainly programmable logic controllers (Programmable Logic Controllers – PLC's) (hereafter: "**controllers**"). Controllers are computer based electronic products (hardware and software), which serve for control and supervision of machines performing automatic tasks such as manufacturing systems, automated storage systems, industrial retrieval and logistics systems. The Company is also engaged, through its Systems Department, in design, construction and maintenance services in the framework of projects for automation, computerization and integration of computerized production and/or logistic systems, mainly automatic warehouses and automated distribution centers and automated parking lots.

The Company's PLCs are distributed through over one hundred and forty distributors (and a wholly-owned US subsidiary) in about fifty countries throughout Europe, Asia, America and Africa. The services of the Systems Department are provided mainly to customers in Israel, and in a few cases, also outside Israel.

The Company operates from facilities at the "Unitronics Building", which houses offices and industrial space and is, in part, leased by the Company. The Unitronics Building is situated at Airport City, which is adjacent to Israel's David Ben-Gurion Air Terminal. The offices of the Company and all its other facilities in Israel are located there.

Since May 2004, the shares of the Company have been traded on the Tel Aviv Stock Exchange and since September 1999 on the Belgian Stock Exchange, (first on the EuroNM Stock Exchange and since the year 2000 on the EuroNext Stock Exchange in Brussels, Belgium).

3. **Main Events in the Period of the Report and Prior to its Publication**

Changes in the Board of Directors

As of April 13, 2007, the CEO of the company Mr. Haim Shani ceased to serve as Chairman of the Board of Directors (for additional details see the Immediate Report concerning a senior office holder that ceased to hold officeon April 15, 2007) and Mrs. Bareket Shani who serves as a director and an officer in the company was appointed, at that time, to be the Chairperson of the Board of Directors. Mrs. Shani is Mr. Haim Shani's wife (for details see the Immediate Report that was published on April 15, 2007 concerning the appointment of a senior officer). On July 3, 2007, Mrs. Bareket Shani ceased to serve as chairperson of the Board of Directors (for details see the Immediate Report from July 3, 2007, concerning a senior office holder that ceased to hold office on July 3, 2007) and Mr. Haim Shani, who serves as CEO of the company, was appointed on that day to be the Chairman of the Board of Directors for a period of 3 years (for details see the Immediate Report concerning the appointment of a senior officer (excluding the appointment of a director and excluding an individual appointed on behalf of a corporation dated July 3, 2007). This resolution was approved in the General Meeting of the Company's shareholders on July 3, 2007 (for details see Section 1 to the Immediate Report concerning the results of an annual general meeting of the Company's shareholders, , which was published on July 3, 2007).

Granting options; Termination of Options

On April 12, 2007 the Board of Directors approved the private allotment of non-negotiable options to Mr. Jonathan Roman, a former employee of the Company who now serves as a consultant and provides external services to the Company. The private allotment was a "private offering which is neither material nor exceptional " as these terms signify in Regulation 1 of the Securities Regulations (Private Offer of Securities of a Registered Company), 2000. On April 29, 2007 the Tel-Aviv Stock Exchange approved the listing of the shares that will result from the exercising of these options. (For details see the Immediate Report concerning a private offering which is neither material nor exceptional that was published on April 15, 2007, an Immediate Report that includes the Tel-Aviv Stock Exchange's letter concerning the approval that was published on April 29, 2007 and the Amended Report published June 19, 2007, which amended the options exercise periods that were published in the report dated April 15 above).

Until June 30, 2007, options to purchase an aggregate of 690,000 Ordinary Shares of the Company, which were granted under the Company's Employee Share Option Plans, expired in accordance with their terms (for details see the immediate report concerning a change in the Company's Securities published on August 7, 2007).

Buybacks of company shares

Beginning August 2005 the Company, from time to time, carries out buybacks of ordinary shares of the Company, during the trading on the Tel Aviv Stock Exchange. As of August 15, 2007, the Company holds a total of 577,425 shares, which were purchased as aforementioned (of 11,676,546 ordinary shares that exist in the Company's issued capital). As long as the Company owns these shares, they are "dormant shares" as the term is defined in the Companies Law – 5759-1999. For additional details on the matter of these purchases see the Immediate Reports concerning in the Holdings of Holders of an Interest in the Company changes in the holdings of holders of an Interest in the Companythat was published on May 7, 2007, an Amended Report published December 3, 2006 for the Immediate Report published December 2, 2006 on the creation of dormant shares in the company's issued share capital, a change in their number or the identity of the person holding these shares, and immediate reports concerning the creation of dormant shares in the company's issued share capital, a change in their number or the identity of the person holding these shares, which were published on January 8, 2006, September 29, 2005 and September 26, 2005.

First payment of the bond principal (Series 1)

On May 24, 2007 the Company executed the first payment of the principal amount of the Unitronics Debentures (Series 1) in accordance with the prospectus, which was published on May 12, 2004. (For details see the Amended Report published on May 24, 2007, which amended the Immediate Report on an event exceptional to the Company's ordinary course of business, which was published on that day).

Change of method of computation of interest for bonds (Series 1)

On May 24, 2007 the Company announced in an Immediate Report that Delloite Touche (Israel) Brightman Almagor Trustees Ltd. (hereinafter – "the Trustee"), who serves as trustee for the Debentures (Series 1), which the issued by the Company under the prospectus dated May 12, 2004 (hereinafter - the Debentures), informed the Company that in a routine sample routine examination conducted by him, regarding the method of calculation of the interest of the Debentures, he believes that the interest rate should be calculated on a nominal interest and not as the calculated by the Company (effective interest) (hereinafter – "the previous calculation").

Although the Company believes that the interpretation it had thus far given to the method of interest calculation is a reasonable interpretation, and considering that the adoption of the Trustee's position involves amounts that are not material to the Company, the Company has decided to adopt the Trustee's position, to change the method of interest calculation such that the new interpretation benefits the bondholders, and to calculate the interest on a nominal basis at the rate of variable annual Libor interest (as defined in the aforementioned prospectus) with the addition of 2.5% per annum. The interest shall be linked to the US dollar exchange rate.

Therefore, as of May 24, 2007, the interest has been calculated in accordance with the new method as aforesaid, including in respect of the period commencing on May 23, 2007.

In respect of prior periods, for which interest payment have already been made in accordance with the previous calculation, the company is holding discussions and consultations with the relevant entities, including the trustee, in order to reach an agreed arrangement concerning the payment of differentials to the Debenture holders on the dates preceding the above change and in connection thereto, if any.

Changes in the holdings of interested parties

On May 7, 2007, Mr. Haim Shani, the Chairman of the Board of Directors, CEO of the Company and the holder of controlling interest therein, increased his holdings following the purchase of ordinary shares of the Company in the context of trading on the Tel Aviv Stock Exchange. Mr. Shani’s holdings after the change and after the first debenture payment (Series 1) which occurred on May 24, 2007, as described above) were: In the capital – 55.32%, in the voting rights - 58.92% (and with full dilution: in the capital - 37.05% and in the voting rights – 39.39%). (For details see the Immediate Report concerning the status of holdings of interested parties, which was published on May 24, 2007).

Decisions concerning the External Director, Mr. Moshe Bra’az

On March 25, 2007, the Board of Directors of the company approved an annual remuneration and remuneration for participation of Mr. Moshe Bra’az, who was appointed as an External Director of the Company according to the resolution of the General Meeting of the Company’s shareholders from December 7, 2006, at a “fixed amount” as detailed in the Second and Third Addendums of the Israeli Companies Regulations (Rules concerning Remuneration and Expenses of an External Director), 5760-2000 and in accordance with the relevant rating of the company's capital (for details see the Immediate Report concerning a transaction with a director which does not require the shareholders’ approval, that was published on March 26, 2007).

On April 15, 2007, the Board of Directors of the Company decided to approve the inclusion of Mr. Moshe Bra'az in the insurance coverage of directors and officers of the Ccompany.

On March 25, 2007 the Board of Directors resolved, in accordance with the provisions of Section 260 of the Companies Law, 5759-1999, to indemnify Mr. Moshe Bra'az under the authorization of the set forth in the Articles of Association of the Company. The wording of the Letter of Indemnity is identical to the wording of the Letter of Indemnification which was attached as Appendix "B" to the Immediate Report concerning the indemnification of an "office holder" dated March 27, 2006 (for details see the Amended Report dated March 31, 2007, for the Immediate Report concerning the indemnification of an "office holder dated March 26, 2007). The awarding of the indemnification is subject to the approval of the General Meeting of the Company's shareholders (for details see the Amended Report dated March 31, 2007, for the Immediate Report concerning the grant of an indemnity letter to an "office holder" dated March 26, 2007).

These decisions were approved by the General Meeting of the Company's shareholders on July 3, 2007 (for details see Sections 2 and 3 to the Immediate Report concerning the the results of the General Meeting of the Company's shareholders that was published on July 4, 2007).

Patents and intellectual property

On September 2004 the company filed a patent application with the United States Patent and Trademark Office in connection with certain aspects of the WilCo^{TM} technology (see section 1.9.10.1 of the Periodic Report for the year 2006), following the filing of a provisional patent application in September 2003. On May 29, 2007, the United States Patent and Trademark Office registered the patent and its number is US 7,225,037.

Legal Proceedings

Dispute with Robotic

As was specified in section 1.20.3 to the Periodic Report for the year 2006, on December 28, 2006, Robotic Parking Ltd. (hereinafter - "Robotic") filed an amended lawsuit (as a continuance of the original lawsuit from June 2006) against the City of Hoboken, New Jersey, USA and its senior officials in relation to the automated parking system which had been built several years earlier by Robotic. The amended lawsuit added Unitronics and Unitronics Inc. as additional defendants, *inter alia*, in respect of violation of patents and intellectual property rights, causing a breach of contract and defamation. According to the terms of the agreements between City Hall and Unitronics the city undertook, *inter alia*, to indemnify Unitronics for any damage that may be caused to it following the Robotic lawsuit.

During the past few months, the parties to this dispute held discussions in the purpose of settling the conflict by way of compromise. The principles of the compromise: a mutual withdrawal from existing and/or future claims and allegations in connection with said dispute, without any compensation payments. The compromise agreement was signed by the parties on July 17, 2007, and received the validity of a court ruling by a US court on July 20, 2007.

Dispute with IMO

As specified in section 1.20.1 of the Periodic Report for 2006, during the past few months discussions were held between the parties to this dispute, in the purpose of settling the dispute by way of compromise. The essence of the compromise : all parties are to waive all their claims including the IMO's claims against the new Unitronics distributor in France. In light of the parties' agreements, the Court in Israel decided, on February 25, 2007 and on March 1, 2007, to dismiss all the aforementioned claims. At the same time, requests were filed with a court in France to bring the proceedings there to an end. The parties are awaiting the Court's decision concerning the termination the aforementioned proceedings.

Dispute with Sammy Gharb

There have been no changes in these proceedings since publication of the Periodic Report for the year 2006 (for details see section 1.20.2 to the Periodic Report for 2006) and the parties are waiting for the Court to decide on the continuance of the proceedings.

Chapter B – Board of Directors Report

1. The Financial Situation

Commencing January 1, 2007, the Company has been implementing Accounting Standard No. 30 in the matter of intangible assets (hereinafter - Standard 30) of the Israeli Institute of Accounting Standards. The standard explains the accounting treatment of intangible assets, and defines how to measure the book value of these assets, while specifying the disclosure requirements in respect thereof, in accordance with the transition provisions of the standard.

The adoption of the standard shall be carried out retroactively, except as specified hereafter; in the matter of business combinations, the standard will only be implemented regarding business combinations which occurred on January 1, 2007 or thereafter, while with respect to a research and development project in process that was acquired in the framework of a business combination that occurred before January 1, 2007, and that meets the definition of an intangible asset at the time of the purchase and that was recorded as an expense at the acquisition date, on January 1, 2007, the Company shall recognize the asset as a research and development project in process while allocating taxes accordingly. The standard stipulates that an intangible asset shall be recognized if, and only if, it is probable that the projected future economic benefits attributable to the asset will flow to the entity and if the cost of the asset can be reliably measured.

A research and development asset shall be recognized on the basis of its estimated value at the time of purchase less depreciation that would have been accumulated if the asset had been depreciated from the time of the purchase and until December 31, 2006, in accordance with the useful life of the asset and less accumulated impairment losses. The resulting adjustment will be credited to retained earnings as of January 1, 2007.

As aforesaid, as of January 1, 2007, the Company has been implementing the provisions of standard 30 with respect to the development costs of a project that meet the definition of an intangible asset. For additional details on the standard and its application see note 2d(4) in Section C (financial statements).

Assets

The total assets according to the consolidated balance sheets of the Company on June 30, 2007 decreased to approximately NIS 122,955,000 compared to approximately NIS 123,502,000 on December 31, 2006. This decrease primarily stemmed from the decrease in total cash items, cash equivalents, marketable securities and inventory, offset the increase in trade receivable, fixed assets and other assets as specified below.

A decrease was recorded in total cash items, cash equivalents and marketable securities, which amounted to approximately NIS 51,954,000 on June 30, 2007, compared to approximately NIS 70,296,000 on December 31, 2006. Most of the decrease resulted from a negative cash flow during the period as specified below, after offsetting the net income from the start of 2007 as specified below.

The trade receivable and income receivable item recorded an increase from NIS 15,675,000 on December 31, 2006 to NIS 29,496,000 as of June 30, 2007, and it primarily stems from an increase in accounts receivable as a result of the actual pace of progress in the installation of logistic systems by the Company’s Systems Division (in the context of the Company's regular course of business).

Inventory decreased by approx. 6% from NIS 13,663,000 on December 31, 2006 to NIS 12,898,000 on June 30, 2007. The Company believes that an ongoing improvement of efficiency in the supply and inventory management processes contributes to an improvement in this item. The Company regularly maintains an inventory of components and raw materials for about 60-100 days, which is intended to meet the projected requirements for a period of two months. In addition the company maintains an inventory of finished products designed for the delivery of orders on a current basis for a period of 45-75 days (for additional details regarding raw materials, suppliers and inventory see Chapter A, Section 1.9.21.1 of the Annual Periodic Report of the Company for the year 2006).

With respect to the fixed assets, no material change was recorded and it amounts to NIS 23,162,000 on June 30, 2007 compared to approximately NIS 22,576,000 on December 31, 2006.

The other assets item has recorded an increase and it amounts to NIS 3,922,000 on June 30, 2007, compared to NIS 193,000 on December 31, 2006. The increase stems from recording the company's development assets as a result of the implementation of standard 30 as explained in Note 2d4 of the Financial Statements.

Liabilities

The total short-term credit amounted to NIS 12,172,000 on June 30, 2007, compared to NIS 11,720 thousands on December 31, 2006. The bulk of this amount is attributable to current maturities of Convertible Debentures (Series 1), payable commencing May 2007, current maturities of Convertible Debentures denominated in Euro payable from May 2006 until September 2008, and current maturities of long term loans. On May 24, 2007 the Company paid 25% of the capital of the total par value of the Convertible Debentures (Series 1) in the amount of approximately NIS 8,750,000.
The liabilities to Suppliers and Service Providers item, amounted on June 30, 2007, to NIS 15,657,000 compared to NIS 12,112,000 on December 31, 2006. This increase primarily stemmed from an increase in credit from suppliers
The Accounts Payable and Accruals item amounted on June 30, 2007, to NIS 14,216,000 compared to NIS 11,444,000 on December 31, 2006. This increase primarily stems from an increase in accrued expenses and an increase in advances from customers
A decrease was recorded in Long-Term Liabilities as of June 30, 2007, which amounted to NIS 57,802,000 compared to NIS 66,796,000 as of December 31, 2006. Most of the decrease stemmed from the payment of 25% of the capital of the total par value of the Convertible Debentures (Series 1) in the amount of NIS 8,750,000 in May 2007.
A decrease was recorded in the Company's working capital and it amounted to NIS 53,389,000 on June 30, 2007, compared to approximately NIS 65,118,000 as of December 31, 2006. Most of the decrease stems from the partial repayment of Convertible Debentures (Series 1) as a foresaid.

The Company's shareholders' equity as of June 30, 2007 increased to NIS 23,108,000, compared to NIS 21,430,000 as of December 31, 2006. This increase primarily stems from the company's net income after deducting the share buyback during the reporting period.

2. Operating Results

Revenues

The Company's revenues for the fist half of 2007 amounted to NIS 55,523,000 compared to NIS 43,667,000 during the corresponding half of 2006, a 27% increase. The Company's revenues in the quarter that ended on June 30, 2007, amounted to NIS 27,891,000 compared to NIS 22,927,000 in the same quarter of 2006, a 22% increase, representing a continuous growth in revenues for twenty-three consecutive quarters.

Revenue from the Products item for the quarter ended on June 30, 2007 amounted to NIS 14,019,000, a 3% increase compared to the same quarter of 2006. Revenues from products in the first half of 2007 amounted to NIS 27,079,000, a 1% increase from the balance of NIS 26,798,000 in the first half of 2006. The moderate cumulative increase in revenues from Products item, in the Company's estimation, stems mainly from the strengthening of the Shekel in relation the main currencies of its sales (dollar and Euro) during the first quarter of 2007.

Revenues from the Systems item for the quarter ended on June 30, 2007 amounted to NIS 13,702,000, a 56% increase compared to the corresponding quarter of 2006. Revenues from Systems item in the first half of 2007 amounted to NIS 28,123,000, a 70% increase from the balance of NIS 16,546,000 in the first half of 2006. The differences between the quarters as reflected in this item principally stems from the actual pace of progress in the installation of logistic systems by the Company's Systems Department and the commencement of activity in the development of new markets outside Israel (in the first stage mainly in the United States).

Revenues from the Products item for the quarter ended on June 30, 2007, accounted for about 50% of the company's total revenues for this quarter while revenues from the systems segment in the same period accounted for about 49% of total revenues (an additional 1% stems from other revenues). In the same quarter of 2006, it accounted for 61% the company's total revenues for that quarter whereas revenues from Systems item during the same period accounted for 38% of total revenues. In the annual summary for 2006 revenues from products represented 57% of total revenues while revenues from Systems item represented 43% of total revenues.

Cost of Revenue and Gross Profit

Total gross profit for the quarter ended on June 30, 2007, amounted to 6,580,000 (about 24% of total revenues for the period) compared to NIS 8,156,000 in the same period pf 2006 (36% of revenues for the period). Total gross profit for the first half of 2007 amounted to NIS 14,783,000 (27% of revenues for the period) compared to NIS 16,093,000 in the first half of 2006 (37% of revenues for the period).

Gross profit margins in the Products item exceeded those in the Systems item. In the Company's opinion, the changes stated above in the composition of revenues from different activity segments as well as shekel's strengthening against to the main currencies of sales (dollar and Euro) in the first quarter of 2007, constitute the main reasons for these changes in the gross profit margins.

Development expenses, net

Net development expenses for the quarter ended on June 30, 2007, amounted to NIS 336,000 compared to NIS 2,074,000 in the same quarter of 2006. Net development expenses in the first half of 2007 amounted to NIS 801,000 compared to NIS 4,023,000 in the corresponding period of 2006. The difference primarily stemmed from the adoption of Standard 30 of the Israel Securities Authority as of January 2007 as explained in Note 2d(4) of the financial statements. Following the implementation of the standard, an intangible asset was recognized during the period of the report in respect to development costs in the amount of NIS 3,763,000 (unaudited), which meet the criteria for recognition of intangible assets.

Development costs for the reported quarter reflect the continued development of new technologies and products that are required to support the Company's continued, as well as to adapt the Company's products in line with certain changes in standards in different countries worldwide (for details see section 1.9.1.2 of the Periodic Report for the year 2006). During the reporting period and thereafter, the recruitment of staff for the Development item, and therefore the Company expects a continued growth in this item and in the Other Asset item (as a result of the recording of development assets) in the next few quarters[1]

Sales and Marketing expenses

Sales and Marketing expenses for the quarter ended on June 30, 2007 amounted to NIS 3,533,000 (12.7% of revenues), compared to NIS 2,847,000 (12.4% of revenues) in the same quarter of 2006. Sales and Marketing expenses in the first half of 2007 amounted to NIS 6,625,000 (11.9% of revenues) compared to NIS 5,621,000 (12.9% of revenues) in the corresponding half of 2006.

In the reported period an increase was recorded in Sales and Marketing expenses compared to the same quarter of 2006, which stemmed from the need to support the continued growth, in line with the Company's policy in this area. These expenses derived, *inter alia,* from activity related to the development of new markets outside Israel in the systems business, the recruitment of staff for the marketing teams, visits and participation in trade shows and other marketing activities worldwide. The Company estimates that this item is expected to grow in the upcoming quarters commensurate with a relative growth in revenues.[2]

General and Administrative Expenses

In the General and Administrative Expenses item no significant changes were recorded in the quarter that ended on June 30, 2007 and they amounted to NIS 1,596,000 compared to NIS 1,487,000 in the same quarter of 2006. General and Administrative Expenses for the first half of 2007 amounted to NIS 3,338,000 compared to NIS 3,003,000 in the corresponding quarter of 2006.

In the company's estimation, the General and Administrative Expenses for the reported period reflect the expenses necessary to manage the growing operations of the Company.

Operating Profits

A 17% increase was recorded in the operating profit for the first half of 2007, which amounted to NIS 4,019,000 compared to an operating profit of NIS 3,446,000 in the

[1] The information regarding expected growth in research and development expenses is forward-looking information. The main data used as a basis for this information are the company's research and development programs, the stages of the technology under development at the date of this report and the need for continued substantial investments in research and development in order to carry out the company's plans. The main factors that could prevent this information from realizing are changes in the company's development programs for reasons beyond the company's control (such as market needs and consumer preferences, competitors' developments, prices of raw material and services required by the company), the absence of a budget to finance the expenses that will be needed for the continued development in general or to the extent required by the company and possible technological difficulties relating to the completion of the developmental stages under these programs.

[2] The information regarding the expected growth in the selling and marketing expenses is forward-looking information. The main data used as a basis for this information comprise the company's marketing activities, including planned visits to trade shows and training sessions for distributors, and the need for continued substantial investment in marketing including expenses for recording intellectual property rights, including trademarks and names of internet sites. The main factors that could prevent this information from realizing are changes in the company's marketing plans for reasons beyond the company's control (such as changes in the company's distributors, changes in the company's main markets and/or in markets in which the company is not active and the marketing activities of competitors).

corresponding half of 2006. A 36% decrease was recorded in the operating profit for the quarter ended on June 30, 2007, which amounted to NIS 1,115,000 compared to an operating profit of NIS 1,748,000 in the same quarter of 2006.

The changes in the operating profit in the reported quarter primarily stemmed from the increase in the Company's revenues and a decrease in development expenses as a result of the implementation of Standard 30, offset the decrease in the gross profit margin as explained above.

Net Financing Expenses,

Financing expenses for the quarter ended on June 30, 2007, amounted to NIS 737,000 compared to NIS 1,053,000 in the same quarter of 2006. Financing expenses in the first half of 2007 amounted to NIS 2,241,000 compared to NIS 2,123,000 in the corresponding period of 2006.

This item mainly includes the interest on the Company's Debentures, primarily Debentures (Series 2) that were issued under a prospectus from August 2006, financing costs in respect of long-term credit, offset the interest income from marketable securities.

As of May 2004 the Company’s exposure to changes in shekel-dollar exchange rate increased, following the issuance of Convertible Debentures (Series 1), which under the Israeli prospectus, are linked to the dollar's exchange rate that shall not fall below NIS 4.59 per dollar, and following the payment of the Debenture capital in May 2007. In addition to this exposure to exchange rate fluctuations, this issuance entails an interest component and accordingly, the Company estimates that this item will be affected by these factors in the next few quarters.

As of August 2006, the Company’s exposure to changes in the Consumer Price Index increased, following the issuance of Debentures (Series 2), which under the Israeli prospectus, are linked to the CPI. In addition to the exposure to fluctuations in the CPI, this issuance entails an interest component and accordingly, the Company estimates that this item will be affected by these factors in the coming quarters.

Net income

In the reported quarter the company's net income amounted to NIS 378,000 (1% of revenues), compared to a net income of NIS 665,000 in the same quarter of 2006 (3% of revenues). In the first half of 2007, net income amounted to NIS 1,778,000 (3% of revenues), representing a 40% increase compared to a net income of NIS 1,266,000 in the corresponding period of 2006 (2.9% of revenues).

The Company believes that the continued growth in revenues on the one hand, and the decrease in development expenses as a result of the implementation of standard 30, offset the gross profit margin as aforesaid and the necessary increase, in its estimation, in the operating expenses for the benefit of continued growth in its activity on the other hand – constitute the main factors for the increase in the net income during the reported period compared to the same quarter of 2006. As aforesaid, the Company believes that certain expense items may increase in the next few quarters, for the purpose of supporting its continued growth.

Analysis of Business Expenses according to Sectors of Activity

As aforementioned, the main commercial activities of the Company are conducted by two of the business departments, the Products Department and the Systems Department. Details of the results of the various sectors appear below.

The Products Sector

The Products sector's results for the reported period amounted to NIS 3,091,000, compared to NIS 4,293,000 in the corresponding period in 2006. The product sector's results for the first half of 2007 amounted to NIS 6,578,000, compared to NIS 8,600,000 in the same period of 2006. The decrease in results for this item for the reported period stems, in the Company's estimation, from the profit margins of several of transactions (during the ordinary course of business) and also from the shekel's strengthening against the main currencies of sale (dollar and Euro) in the first quarter of 2007.

The Systems Sector

The Systems sector's results for the reported period amounted to NIS 127,000, compared to NIS 1,001,000 in the same quarter of 2006. The results of the Systems sector for the first half of 2007 amounted to NIS 1,945,000, compared to NIS 1,893,000 in the same period of 2006. In the Company’s opinion, the decrease in the item's results during the reported quarter and the moderate increase in results during the reported six-month period stem from the profit margins of several transactions (during the ordinary course of business) and the increase in marketing expenses in this item, despite the increase in revenues during the reported period.

3. Liquidity and Sources of Financing

The cash balance, cash equivalents and marketable securities of the company on June 30, 2007, amounted to NIS 51,954,000 compared to NIS 70,296,000 on December 31, 2006. This decrease stems mainly from a cumulative negative cash flow since the beginning of the year, as explained below.

Cash flows from operating activity during the quarter ended June 30, 2007, amounted to a positive balance of NIS 2,300,000, and it primarily stems from an increase in the trade payable, accounts payable and accruals and the differences in the dollar-shekel and Euro-shekel exchange rates and their affect on long-term loans and Convertible Debentures, offset of trade receivable and income receivable in the first half of 2007, the cash flow from operating activity amounted to a negative balance of NIS 3,063,000, which primarily stems from the increase in trade receivable and income receivable offset the increase in trade payable, accounts payable and accruals and offset the net income during the period as explained above.

Cash flows from investment activities in the quarter ended on June 30, 2007, amounted to a positive balance of NIS 6,592,000, mainly as a result of the sale of marketable securities offset the purchase of fixed assets and the recording of investments in development assets as a result of the implementation of standard 30, as explained above. In the first half of 2007 the cash flow from investment activity amounted to a negative balance of NIS 20,323,000, primarily as a result of the purchase of marketable securities and fixed assets since the beginning of the year as well as the recording of investments in development assets, following the implementation of standard 30.

Cash flows from financing activities in the quarter ended on June 30, 2007 amounted to a negative balance of NIS 9,580,000 which primarily stems from the payment of 25% of the capital of the total par value of the Convertible Debentures (Series 1) as well as the payment of Convertible Debentures that were issued on February 2001 and denominated in Euro. In the first half of 2007, cash flows from financing activities amounted to a negative balance of NIS 10,256,000, which primarily stems from the payment of Convertible Debentures, as explained above.

As of June 30, 2007, the total credit lines available to the Company for ongoing activity amounted to NIS 15.1 million. As of June 30, 2007, a total amount of NIS 1.09 million was used from this credit facility, primarily for securing the Company's liabilities in projects carried out by the Systems Division.

4. Qualitative Report regarding Exposure to Market Risks and Management Methods thereof

The persons in the Company responsible for the management of market risks are the CEO and CFO of the Company.

Exposure to Exchange Rate Fluctuations

The Company is exposed to fluctuations in the exchange rate, mainly changes in the dollar's exchange rate against the shekel and against the Euro for the following reasons:

In May 2004 the Company issued Convertible Debentures (Series 1) under the 2004 prospectus. The principal and interest of the Debentures are linked to the representative rate of the US Dollar (according to a basic rate of NIS 4.59 per 1 US dollar); the payment of the Debenture principal commenced on May 2007. Until the full conversion or full payment of the Debentures by May 2010, the Company is exposed to fluctuations in the dollar-shekel's exchange rate.

In February 2001 the Company issued Convertible Debentures that were issued and nominated in Euro. In December 2003 75% of the Debenture principal was converted to shares of the Company. Until the full conversion or payment of the Debentures between May 2006 and September 2008, the Company is exposed to fluctuations in the dollar-shekel's exchange rate. By August 7, the Company has paid 6 out of 10 principal and interest payments in respect of this Debenture.

The Company's assets, which are exposed to changes in the exchange rate, primarily include deposits in various currencies (mainly Euro and US dollar), liabilities to customers denominated in different currencies in accordance with the particular customer, which do not bear interest, and negotiable securities that are linked to foreign currency.

The current liabilities item, which are exposed to changes in the exchange rate, primarily include current maturities of long-term loans that are mostly linked to foreign currency as well as liabilities to suppliers in foreign currency, mainly Euro. The long-term liabilities include debts in respect of a financing plan for the acquisition of rights in the Company’s Airport City offices, 50% of which are denominated in US dollars and 50% denominated in Euro.

The Company’s activity, in part, is conducted in foreign currency or in shekels linked to foreign currency. In the Products item, most of the revenues are denominated in US dollars or linked to the dollar's exchange rate, except for revenues resulting from sales in Europe, which are denominated in Euro. In the Systems item, most of the Company’s revenues stem from sales denominated in Euro or linked to the Euro's exchange rate.

Raw materials required for the manufacturing of the Company’s products primarily include electronic or various mechanical components, the prices of which are mostly quoted in foreign currency – mainly dollar or Euro.

Exposure to Changes in the Consumer Price Index

In August 2006, the Company issued Debentures (Series 2). These Debentures are linked to the Consumer Price Index (CPI). Subsequently, commencing in August 2006, the Company's exposure to changes in the CPI increased. Developments and changes in the Israeli economy, including depreciation and inflation can lead to changes in the CPI and can therefore influence the revenues/financing expenses of the Company.

Risks Related to Negotiable Securities

Part of the Company's financial resources is invested in negotiable securities. Unusual developments in the capital markets in Israel and worldwide can lead to fluctuations in the prices of negotiable securities traded on stock exchanges and can therefore influence the revenues/financing expenses of the Company.

Interest risks

The Company has various loans relating to the purchase of rights in the Company's facilities in Airport City, Convertible Debentures (Series 1) and Debentures (Series 2) that were issued by the Company under the prospectuses published in 2004 and 2006 and other credit facilities that bear interest and are exposed to possible changes in the "prime" and/or LIBOR interest rates.

The Company's Market Risk Management Policy

The Company's policy is to try and reduce, with respect to each contract, the exposure to fluctuations in the exchange rate by matching the currency of its revenues to the currency of its main expenses. In the Systems item, the Company usually links the terms of payment (dates/foreign currency) of the different customers to the terms of payment terms for sub-contractors.

The Company's policy on the diversification of investments is designed to reduce the Company's exposure to liabilities denominated in dollars (mainly payments of principal and interest on Convertible Debentures (Series 1) that are linked to the dollar).

To that end, the Company has examined, after consulting with professionals in the capital market a short time after the publication of the 2004 prospectus (and receipt of the proceeds of the issuance), a number of possibilities for alternative investments, *inter alia*, the use of dollar-linked deposits, the use of derivatives and other financial instruments or shekel-linked investments.

In the company's opinion, since its liabilities relating to Convertible Debentures (Series 1), which were issued pursuant to the 2004 prospectus, are linked to the dollar's exchange rate at a minimum rate of NIS 4.59 per dollar, the use of deposits linked to the dollar alone cannot secure the Company's liabilities in relation to Convertible Debentures (Series 1), especially in the event that the dollar falls below the basic rate stated above. On May 24, 2007, the Company paid 25% of principal of the total nominal value of Convertible Debentures (Series 1) in the amount of NIS 8,750,000 according to a basic rate of NIS 4.59 per dollar (while the dollar's representative rate on the payment date was only NIS 3.991).

The use of derivatives and other financial instruments to hedge against fluctuations in the dollar's exchange rate in order to meet the Company's liabilities relating to Convertible Debentures (Series 1), was found by the Company to be unadvisable due to the high costs involved.

In reference to the aforesaid, and to the fact that most of the Company's revenues are in foreign currency, the Company decided, after the issuance in 2004, to diversify its investments such that 60% would be linked to the dollar (and thus relatively hedging against increases in the dollar's exchange rate) and 40% of its investments would be in shekel-linked bonds, which at that time yielded higher returns, and thus relatively hedge against a decrease in the dollar's exchange rate below the base rate.

Following the issuance in August 2006 and issuance of Debentures (Series 2) which are linked to the Consumer Price Index, the Company's investment committee decided to invest the proceeds of the issuance such that 35% of its funds would be invested in dollar-linked investments (thus relatively hedging against an increase in the dollar's exchange rate) and 65% of its funds would be invested in shekel-linked investments that are linked to the CPI (thus relatively hedging against changes in the CPI).

Beyond the activities of the Company's investment committee as aforesaid, the market risk management and hedging measures taken during the year of the report are presented to the Board of Directors on a quarterly basis and in the context of discussions pertaining to the periodic reports.

5. Consolidated report on linkage bases

Consolidated report on Linkage bases

	As of June 30, 2007						
	Israeli Currency		Foreign Currency				
	Unlinked	Linked to the Consumer Price Index	In EURO	In US Dollars	Other Currencies	Non-monetary balances	TOTAL
	Thousands of New Shekels						
Assets							
Cash and cash equivalents	2,689		1,244	2,330	-	-	6,263
Marketable securities	9,080	30,463	-	6,140	-	-	45,683
Accounts Receivable-Trade	17,567	-	3,300	8,629	-	-	29,496
Accounts Receivable-Other	436	309	-	-	-	181	926
Inventory	-	-	-	-	-	12,898	12,898
Inventory/ Work in Progress	-	-	-	-	-	168	168
Long-term deposits	-	-	-	-	-	437	437
Fixed Capital, Net	-	-	-	-	-	23,162	23,162
Other Property and Deferred Expenses, Net	-	-	-	-	-	3,922	3,922
Total Assets	29,772	30,772	4,544	17,099	-	40,768	122,955
Liabilities							
Short-term credit and current maturities on long-term loans	-	120	2,838	9,214	-	-	12,172
Suppliers and Service Providers	13,204	-	2,062	391	-	-	15,657
Accounts payable and accruals	13,044	-	-	210	-	962	14,216
Long term loans	-	167	5,008	4,403	-	-	9,578
Convertible Debentures	-	-	677	15,401	-	-	16,078
Debentures	-	30,233	-	-	-	-	30,233
Accrued Severance Pay, Net	1,912	-	-	-	-	-	1,912
Deferred taxes	-	-	-	-	-	-	-
Total Liabilities	28,160	30,520	10,585	29,619	-	962	99,846
Net Balance	1,612	252	(6,041)	(12,520)	-	39,806	23,109

6. Sensitivity Tests for Financial Instruments as of June 30, 2007

As of the balance sheet date, the Company has conducted 4 sensitivity tests in respect of changes in the upper and lower range of 5% and 10% in financial instruments. These market tests were conducted in line with an established model.

1) The following table presents the changes in the fair value of financial instruments that are sensitive to changes in the dollar's exchange rate:

Profit (loss) from change, NIS, 000		NIS, 000	Profit (loss) from change, NIS, 000		
-10% NIS 3.82/$	-5% NIS 4.036/$	Fair value NIS 4.249/$	5%+ NIS 4.46/$	10%+ NIS 4.67/$	
-233	-117	2,330	117	233	Cash and cash equivalents
-614	-307	6,140	307	614	Trade and other receivable
-863	-431	8,629	431	863	S.T. credit and current maturities of L.T. liabilities (*)
46	23	-9,214	-23	-206	Suppliers and service
39	20	-391	-20	-39	Cash and cash equivalents
21	11	-210	-11	-21	Accounts payable and accruals
440	220	-4,403	-220	-440	Long-term loans
-	-	-15,401	-	-282	Convertible Debentures (**)
-1,164	-581	-12,520	581	722	Total

* For current maturities of Convertible Debentures that were issued at a minimum rate of NIS 4.59/dollar.

** Convertible Debentures that were issued at a minimum rate of NIS 4.59/dollar.

2) The following table presents the changes in the fair value of financial instruments that are sensitive to changes in the Euro's exchange rate:

Profit (loss) from change, NIS, 000		NIS, 000	Profit (loss) from change, NIS, 000		
-10% NIS 4.142/Euro	-5% NIS 5.428/Euro	Fair value NIS 5.713/Euro	5%+ NIS 5.999/Euro	10%+ NIS 6.285/Euro	
-124	-62	1,244	62	124	Cash and cash equivalents
-330	-165	3,300	165	330	Trade and income receivable
284	142	-2,838	-142	-284	S.T. credit and current maturities of L.T. liabilities
206	103	-2,062	-103	-206	Suppliers and service
501	250	-5,008	-250	-501	Long-term loans
68	34	-677	-34	-68	Convertible Debentures
605	302	-6,041	-302	-605	Total

3) The following table presents the changes in the fair value of financial instruments that are sensitive to changes in the CPI:

Profit (loss) from change, NIS, 000		NIS, 000	Profit (loss) from change, NIS, 000		
-10% 168.003 points	-5% 177.337 points	Fair value 186.67 points	5%+ 199.004 points	10%+ 205.337points	
-3,046	-1,523	30,463	1,523	3,046	Marketable securities
-31	-15	309	15	31	Accounts receivable
12	6	-120	-6	-12	S.T. credit and current maturities of L.T. liabilities
17	8	-167	-8	-17	Long-term loans
-	-	-30,233	-1,270	-2,770	Debentures (***)
-3,048	-1,524	252	254	278	Total

*** The Debentures were issued at a basic rate of 188.1 (1993 average)

4) The following table presents the changes in the fair value of financial instruments that are sensitive to changes in marketable securities:

Profit (loss) from change, NIS, 000		NIS, 000	Profit (loss) from change, NIS, 000		
-10%	-5%	Fair value	5%+	10%+	
-1,651	-825	16,506	825	1,651	Israeli - government
-2,910	-1,455	29,096	1,455	2,910	Israeli – corporate
-8	-4	81	4	8	Foreign – corporate
-4,568	-2,284	45,683	2,284	4,568	Total

7. Transition to International Financial Reporting Standards

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29, "Adoption of International Financial Reporting Standards (IFRS)" (hereunder - the Standard). Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 5728-1968, and that are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. The Standard permits early adoption of IFRS Standards for financial statements issued subsequent to July 31, 2006.

Companies that prepare their financial statements for the first time in accordance with IFRS will be required upon transition to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

According to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, a balance sheet as of December 31, 2007, and a statement of income for the year then ended, that have been prepared based on the recognition, measurement and presentation criteria of IFRS.

The Company is preparing to adopt the IFRS, and to that end it has examined the material effects, which are expected to derive from the adoption of these standards. The Company's management has appointed the CFO to head the process of adopting IFRS. Information on the Company's preparations for reporting in accordance with IFRS as well as a qualitative description of the expected effects on the company's consolidated financial statements as a result of the transition, has been provided by the Company under the Board of Director's Report in the Periodic Report as of December 31, 2006 (see section 2.11 in the Periodic Report as of March 26, 2007).

In accordance with the directives of the Israel Securities Authority pursuant to section 36A(b) of the Securities Law, 1968 relating to disclosure on adoption of IFRS, a reporting company is required to include in the Board of Directors' report for the interim period ended on June 30, 2007, existing information or estimates on the quantitative impact of the transition to International Financial Reporting Standards on the financial statements.

Below are the sections in the consolidated balance sheet for January 1, 2007 (Opening Balance Sheet under IFRS), which are expected to be materially affected by the transition to reporting in accordance with IFRS:

Reporting under IFRS	Effect of transition to IFRS	Reporting under Israeli GAAP	Note	
	NIS in thousand			
				January 1, 2007:
19,105	(3,471)	22,576	2	Fixed assets, net
3,211	3,211	-	2	Pre-paid expenses in respect of operating lease
22,316	(260)	22,576		Total relevant asset items
				Liability items:
-	-			The debt component of Debentures
23,658	(1,673)	25,331	3	convertible into shares
1,829	1,829	-	4	Option warrants
1,003	1,003	-	3	Conversion warrants of Debentures
-	-			Liability for employee severance
492	(1,136)	1,628	1	benefits, net
26,982	23	26,959		Total relevant liability items
-	-	-		
				January 1, 2007:
279	268	11	5	Equity items:
-	(1,373)	1,373	4	Receipts on account of option warrants
(25,316)	792	(26,108)		Retained earnings (accumulated deficit)
(25,037)	(313)	(24,724)		Total relevant equity items

Laid out below are estimates and a description of the expected material quantitative effects on the Company's financial statements as a result of the transition to IFRS:

1. **Liability for Employee Severance Benefits:** in accordance with generally accepted accounting principles in Israel, the Company's liability for severance pay is calculated based on the recent salary of the employee multiplied by the number of years of employment (one monthly salary for all the years of employment), as of the balance sheet date. The amounts funded in respect of this liability include profits accumulated up to the balance sheet. The value of these deposits is based on the cash surrendered value of these policies at the balance sheet date.

   According to IFRS, the liability for employee severance pay is computed in accordance with IAS 19 “Employee Benefits” (hereinafter – IAS 19). Pursuant to the provisions of IAS 19, the Group's severance pay plan falls under a “defined benefit plan” which is set forth in the standard. Therefore, the liability for employee severance benefits, under the plan, is measured on the basis of actuarial estimates while taking into account, *inter alia*, future wage increments and employee termination rates. The measurement is carried out on the basis of discounted expected cash flows, the interest rates on high-rated shekel-linked corporate debentures, whose repayment date is close to the period of liabilities for severance benefits. In addition, the amounts funded (the plan's assets) are measured at their fair value.

   Pursuant to the provisions of IFRS 1, the Company elected the alleviation relating to IAS 19 under which, upon the transition to reporting in accordance with IFRS, the Group shall recognize the net actuarial gains/losses as part of the shareholder's equity as of January 1, 2007. The meaning of this alleviation is that the group is not required to calculate the amounts of deferred actuarial gains or losses for each reporting year since the date of its establishment in order to determine the actuarial gains or losses as of January 1, 2007. Therefore, the Group's financial statements reported under IFRS as of January 1, 2007, shall include the full amounts of its net actuarial liabilities in respect of the plan. The difference between the amount of net liabilities measured as aforesaid, in respect of employee severance benefits under IAS 19, as of January 1, 2007, and the amount in which are presented under generally accepted accounting principles in Israel, which amounts to a decrease in said liabilities of NIS 1,136,000 shall be carried, upon the transition to IFRS, to retained earnings.

   As of June 30, 2007, the affect of the transition to IFRS on the liabilities and funded amounts in respect of employee severance benefits is not materially different than the effect of transition on these items in the balance sheet as of January 1, 2007 as stated above. In addition, the transition to IFRS is not expected to result in material impact, due to the change in the measurement of liabilities and amounts funded as aforesaid on the statement of income items to which the changes in liabilities and amounts funded are carried for the six-month period ended on June 30, 2007 compared to the amounts carried to these items under generally accepted accounting principles during the said period.

2. **Fixed Assets:** pursuant to the agreement for acquisition of rights dated July 23, 2000 with Airport City Ltd. (hereinafter – Airport City), the Company was provided a capitalized leasing right (91%) in the ground floor (with a basement) and a first floor in a building named "Unitronics House" for a period of 49 years from the date of approval of the transaction by the Israel Land Administration, through its registrations with the Israel Land Administration. Airport City has undertaken to register the right in the Company's name no later than November 14, 2007. The cost for the abovementioned rights, as described in the Company’s account books, amounted to NIS 3,471,000.

   In accordance with generally accepted accounting principles in Israel, the amounts in respect if these leasing rights were presented as "land" under the Group's fixed assets. The amount that was paid was not amortized. Under IFRS, said lease is classified in accordance with the provisions of IAS 17 – "lease", as an operating lease, and therefore the amounts paid as aforesaid, which constitute leasing fees will be separated in advance from the fixed assets item and presented under "prepaid expenses in respect of an operating lease" and amortized over the period of use in rights as aforesaid (49 years).

Accordingly, with the transition to reporting under IFRS as of January 1, 2007, there will be an increase in the prepaid expenses balance in respect of operating lease in the amount of NIS 3,020,000. The fixed asset balance for the same period will decrease by NIS 3,471,000, and the net difference in the amount of NIS 451,000 will be carried to retained earnings.

As of June 30, 2007, the affect of the transition to IFRS on said items in respect of the lease of the land is not expected to be materially different from the effect of the transition on these items as of January 1, 2007.

The effect of the transition to IFRS that stems from the aforesaid lease agreement on the statements of income for the six-month period ended on June 30, 2007 is not material.

3. **Debentures Convertible into Shares:** in May 2004 the Company issued Convertible Debentures into ordinary shares of the Company. The Debentures and their conversion price are linked to the dollar's exchange rate. Pursuant to the transition provisions of Accounting Standard No. 22 of the Israeli Accounting Standard Board - "Financial Instruments: Disclosure and Presentation", said Debentures constitute a compound financial instrument that includes a liability component and an equity component. Accordingly, the proceeds received in the bond issuance were split into these components in the matter set forth in Standard 22.

   In accordance with IAS 32 – "Financial Instruments: Presentation", since the conversion component is linked to foreign currency and is not fixed in shekel terms (the Company's currency of operation), it constitutes a financial liability and not an equity component. The said conversion component will be measured in accordance with IAS 39 – "Financial Instruments: Recognition and Measurement" on the basis of its fair value, while the changes in the fair value of this component are to be carried to the statement of income each period.

   Accordingly, with the transition to IFRS, as of January 1, 2007, the liabilities presented as Convertible Debentures will decrease in the amount of NIS 1,673,000, the equity component that was allocated to this instrument will be cancelled, pursuant with Standard 22 above (which was presented under "receipts on account of option warrants") in the amount of NIS 235,000 and a liability for the conversion component for an amount of NIS 1,003,000 as of January 1, 2007 against an increase in retained earnings in the amount of NIS 905,000.

   As of June 30, 2007, the affect of the transition to IFRS on said Debentures is not expected to be materially different from the effect of the transition on these Debentures as of January 1, 2007, except liabilities for the conversion component in the amount of NIS 532,000 as of June 30, 2007.

   In connection with said bonds, the transition to IFRS is not expected to have a material impact on the consolidated statement of income items under IFRS for the six-month period ended on June 30, 2007, except for a decrease in the liabilities for the conversion component for the amount of NIS 471,000 for the period of 6 months ended on June 30, 2007.

4. **Issuance of CPI-linked Options:** pursuant to generally accepted accounting principles in Israel, the Company's shareholder's equity includes proceeds in the amount of NIS 1,138,000 which was received in respect of option warrants issued by the Company to investors in 2004, whose exercise price is linked to the dollar, and in respect of option warrants issued by the Company in 2006, whose exercise price is linked to the CPI.

   Pursuant to IAS 32 – "Financial Instruments: Presentation", these option warrants constitute a "financial liability" since they include an non-fixed exercise price (as they are linked to the CPI and to the dollar), which will presented in the Company's consolidated balance sheet under liabilities. These liabilities will be measured in accordance with the provisions of IAS 39 – "Financial Instruments: Recognition and Measurement", that is, they will be presented according to the fair value of the options warrants at each balance sheet date, while the changes in the fair value will be carried to the statement of income.

With the transition to IFRS, as of January 1, 2007, the proceeds from said option warrants in the amount of NIS 1,138,000 that were included as part of the shareholder's equity will be deducted and recognized as a long-term liability in the amount of NIS 1,829,000, which represents the fair value of the option warrants as of that date. The difference between said amounts of NIS 691,000 will be carried to retained earnings.

As of June 30, 2007, said liability will be presented according to the fair value of said option warrants, which amounts to NIS 1,468,000. The decrease in the fair value of said options warrants during the six-month period ended on June 30, 2007, in the amount of NIS 360,000, will be carried to the consolidated statement of income prepared in accordance with IFRS for said period.

5. **Share-Based Payment:** the Company has option plans for employees which, in accordance with the provisions of Accounting Standard No. 24 of the Israeli Accounting Standard Board – "Share Based Payment" falls under the definition "equity-settled share-based payment". Standard 24 is implemented, in accordance with its transition provisions, with respect to share-based payment transactions that are settled by equities, which were carried out subsequent to March 15, 2005 and which had not vested before January 1, 2007.

   With the transition to IFRS, as of January 1, 2007, and as stipulated by IFRS 1, the Company shall be required to implement the provisions of IFRS 2 – "Share-based Payment" also on equity instruments that were granted before March 15, 2005 but after November 7, 2002 and which had not vested before January 1, 2007.

   Accordingly, in the Company's consolidated balance sheet prepared in accordance with IFRS as of January 1, 2007, an amount of NIS 268,000 will be carried to retained earnings against an increase in the item "principal equity", which is included in the Company's shareholders equity. In addition, in respect of said equity instruments the company shall recognize, during the six-month period ended on June 30, 2007, additional payroll expenses in the amount of NIS 25,000 under administrative and general expenses, against an increase in the item "the principal equity", which is included in the Company's shareholders' equity.

   The Company estimates that with the exception of these items, no material effect is expected on its operating results, liquidity and financial resources. The Company will continue to examine the effects of transition to IFRS, until the initial implementation of these standards in the first quarter of 2008.

8. Details on the Process of Approval of the Company's Financial Statements

The Company's financial statements are prepared by the Company's CFO. The statements are reviewed (and in the relevant cases even audited) by the Company's auditor, who is given complete access to all the data and information in the Company, including meetings with Company employees and directors, as required by him. After a review/audit has been conducted by the auditor, the reports are transferred to members of the Company's Board of Directors, for review prior to and in preparation for the discussion in Board of Directors' meetings designated to that end. The Company views its Board of Directors as the entity in charge of the ultimate control in the matter of the Company's financial statements. The members of the board of directors and their respective duties in the Company are:

1. Mr. Haim Shani – Chairman of the Board of Directors and CEO of the Company, and a director with professional qualifications.
2. Ms. Bareket Shani – A director with professional qualifications, Vice President and Head of Human Resources, member of the Credit and Investment Committee and the Securities Committee of the Company's Board of Directors.
3. Zvi Livne, CPA - a director with accounting qualifications and member of the Audit Committee.
4. Ron Mishal, CPA – External director with accounting qualifications, member of the Audit Committee and the Credit and Investment Committee of the Company.
5. Moshe Bra'az, CPA - External director with accounting qualifications, member of the Audit Committee and the Securities Committee of the Company's board of directors.

After the directors have read the financial statements, a Board of Directors' meeting is convened for the purpose of presenting and discussing the financial statements. In this meeting, the Company's management reviews the main data of the financial statements. The Company's auditor is also present in the meeting, to reviews certain aspects of the reports, accounting issues relating to the financial statements and the process of review and audit conducted be him in the Company, and then answers questions director to him by members of the board (together with the Company's CEO and CFO, who answer the questions directed at them). Under the Board of Directors' discussion, comments and/or clarifications or requests are often made for additional data, which are then reflected in the financial statements. At the end of the discussion, the financial statements are subject to approval by vote.

Haim Shani CEO and Chairman of the Board of Directors	Zvi Livne Director

Date: August 15, 2007

UNITRONICS (1989) (R"G) LTD.

Financial Statements
As at June 30, 2007

(Unaudited)

Unitronics (1989) (R"G) Ltd.

Financial Statements

As at June 30, 2007

(unaudited)

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AMIT, HALFON C.P.A (ISR)
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To the Board of Directors of Unitronics (1989) (R"G) Ltd.

Re: **Review of the Interim Financial Statements**

At your request, we have reviewed the interim consolidated balance sheet of Unitronics (1989) (R"G) Ltd. as at June 30, 2007, and the related interim consolidated statements of operations, changes in shareholders' equity and cash flows for the six and the three months then ended.

Our review was made in accordance with procedures established by the Institute of Certified Public Accountants in Israel. These procedures included reading the above mentioned interim consolidated financial statements, reading minutes of meetings of the shareholders and of the board of directors and its committees, and making inquiries of persons responsible for financial and accounting matters.

We did not review the Interim Financial Statements of a subsidiary, which were reviewed by other auditors. We have been furnished with reports of other auditors in respect of the review of the Interim Financial Statements of the subsidiary whose assets as at June 30, 2006 represent approximately 8% of the total assets included in the Consolidated Interim Balance Sheet and whose income for the six month period ended June 30, 2007 represents approximately 18% of the total income included in the Consolidated Interim Statement of Operations.

Since the review performed is limited in scope and does not constitute an examination in accordance with acceptable auditing standards, we do not give an opinion on the above Interim Financial Statements.

Based on our review and the reports of other accountants, we are not aware of any material modifications that should be made to the interim consolidated financial statements in order for them to be in conformity with generally accepted accounting principles in Israel and with chapter D to the Securities Regulations (Periodic and Immediate Reports) - 1970.

Amit, Halfon
Certified Public Accountants (Israel)

August 15, 2007

Unitronics (1989) (R"G) Ltd. **Consolidated Balance Sheets**	***June 30, 2007***	***June 30, 2007***	***June 30, 2006***	***December 31, 2006***
	(unaudited)	**(unaudited)**		**(audited)**
		(in thousands)		
	Convenience translation into Euro (1)	**Reported NIS**		
Cash and cash equivalents	1,0	6,264	14,787	39,906
Marketable securities	7,9	45,683	31,639	30,390
Accounts receivable -				
Trade	5,1	29,496	12,199	15,675
Other	1	926	1,060	566
Inventory	2,2	12,898	15,176	13,663
work in progress-Inventory	[illegible]	167	19	194
Current assets	*16,704*	*95,434*	*74,880*	*100,394*
Long-term deposits	[illegible]	*437*	*273*	*339*
Property and equipment, net	*4,0*	*23,162*	*22,422*	*22,576*
Other assets and deferred expenses, net	*6*	*3,922*	*540*	*193*
Total assets	***21,521***	***122,955***	***98,115***	***123,502***
Credit from banks and others	2,1	12,172	10,069	11,720
Accounts payable -				
Trade	2,7	15,657	16,122	12,112
Other	2,4	14,216	10,241	11,444
Current liabilities	*7,359*	*42,045*	*36,432*	*35,276*
Long-term debt from banks and others	1,6	9,579	10,851	9,978
Convertible bonds	2,8	16,078	26,574	25,331
Bonds	5,2	30,233	-	29,859
Accrued severance pay, net	3	1,912	1,813	1,628
Deferred taxes		-	335	-
Long-term liabilities	*10,117*	*57,802*	*39,573*	*66,796*
Shareholders' equity	*4,045*	*23,108*	*22,110*	*21,430*
Total liabilities and shareholders' equity	***21,521***	***122,955***	***98,115***	***123,502***

Haim Shani	Tzvi Livne	Yair Itscovich
Chairman of the Board of Directors and Chief Executive Officer	*Director*	*Chief Financial Officer*

Approved: August 15, 2007.

(1) See note 2D.

The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Consolidated
Statements of Operations

	For the six months period ended June 30,	*For the six months period ended June 30,*		*For the three months period ended June 30,*	*For the three months period ended June 30,*		*For the year ended December 31,*
	2007	**2007**	**2006**	**2007**	**2007**	**2006**	**2006**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro (1)	**Reported NIS**		**Convenience translation into Euro (1)**	**Reported NIS**		
Revenues	9,718	55,523	43,667	4,882	27,891	22,927	94,781
Cost of revenues	7,130	40,740	27,574	3,730	21,311	14,771	62,176
Gross profit	*2,588*	*14,783*	*16,093*	*1,152*	*6,580*	*8,156*	*32,605*
Development expenses, net	140	801	4,023	59	336	2,074	8,521
Selling & marketing expenses	1,160	6,625	5,621	618	3,533	2,847	10,970
General & administrative expenses	585	3,338	3,003	280	1,596	1,487	6,102
Operating profit	*703*	*4,019*	*3,446*	*195*	*1,115*	*1,748*	*7,012*
Financing expenses, net	392	2,241	2,123	129	737	1,053	4,827
Operating profit after financing expenses, net	*311*	*1,778*	*1,323*	*66*	*378*	*695*	*2,185*
Other income, net	-	-	33	-	-	33	23
Profit before taxes on income	*311*	*1,778*	*1,356*	*66*	*378*	*728*	*2,208*
taxes on income	-	-	(90)	-	-	(63)	(85)
Profit for the period	*311*	*1,778*	*1,266*	*66*	*378*	*665*	*2,123*
Profit per 1 ordinary share NIS 0.02 par value	0.028	0.158	0.110	0.006	*0.034*	*0.058*	*0.185*

(1) See note 2D.

The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Statements of Shareholders' Equity

	Share capital	Capital reserves	Share premium	Receipts on account of warrants and conversion option	Company shares held by the company	Accumulated loss	Total
	Reported NIS in thousands						
Balance at January 1, 2006 (audited)	352	-	48,442	676	(574)	(28,231)	20,665
Purchase of company shares by the company	-	-	-	-	(2,066)	-	(2,066)
Split of conversion option from convertible bonds, net	-	-	-	235	-	-	235
Benefit arising from warrants granted	-	11	-	-	-	-	11
Receiptson account of warrants	-	-	-	462	-	-	462
Profit for the year	-	-	-	-	-	2,123	2,123
Balance at December 31, 2006 (audited)	352	11	48,442	1,373	(2,640)	(26,108)	21,430
Purchase of company shares by the company	-	-	-	-	(100)	-	(100)
Profit for the period	-	-	-	-	-	1,778	1,778
Balance at June 30, 2007 (unaudited)	352	11	48,442	1,373	(2,740)	(24,330)	23,108
Balance at January 1, 2006 (audited)	352	-	48,442	676	(574)	(28,231)	20,665
Purchase of company shares by the company	-	-	-	-	(67)	-	(67)
Split of conversion option from convertible bonds, net	-	-	-	235	-	-	235
Benefit arising from warrants granted	-	11	-	-	-	-	11
Profit for the period	-	-	-	-	-	1,266	1,266
Balance at June 30, 2006 (unaudited)	352	11	48,442	911	(641)	(26,965)	22,11(

The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Statements of Shareholders' Equity

	Share capital	Capital reserves	Share premium	Receipts on account of warrants and conversion option	Company shares held by the company	Accumulated loss	Total
Balance at April 1, 2007 (unaudited)	352	11	48,442	1,373	(2,640)	(24,708)	22,830
Purchase of company shares by the company	-	-	-	-	(100)	-	(100)
Profit for the period	-	-	-	-	-	378	378
Balance at June 30, 2007 (unaudited)	352	11	48,442	1,373	(2,740)	(24,330)	23,108
Balance at April 1, 2006 (unaudited)	352	-	48,442	911	(641)	(27,630)	21,434
Benefit arising from warrants granted	-	11	-	-	-	-	11
Profit for the period	-	-	-	-	-	665	665
Balance at June 30, 2006 (unaudited)	352	11	48,442	911	(641)	(26,965)	22,110

The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Statements of Shareholders' Equity

	Share capital	Capital reserves	Share premium	Receipts on account of warrants and conversion options	Company shares held by the company	Accumulated Loss	total
				Convenience translation into Euro, in thousands (unaudited) (1)			
Balance at January 1, 2007	62	2	8,479	240	(462)	(4,569)	3,752
Purchase of company shares by the company	-	-	-	-	(18)	-	(18)
Profit for the period	-	-	-	-	-	311	311
Balance at June 30, 2007	62	2	8,479	240	(480)	(4,258)	4,04[illegible]
				Convenience translation into Euro, in thousands (unaudited) (1)			
Balance at April 1, 2007	62	2	8,479	240	(462)	(4,324)	3,997
Purchase of company shares by the company	-	-	-	-	(18)	-	(18)
Profit for the period	-	-	-	-	-	66	66
Balance at June 30, 2007	62	2	8,479	240	(480)	(4,258)	4,045

(1) See note 2D.

The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Consolidated
Statements of Cash Flows

	For the six months period ended June 30,	*For the six months period ended June 30,*		*For the three months period ended June 30,*	*For the three months period ended June 30,*		*For the year ended December 31,*
	2007	**2007**	**2006**	**2007**	**2007**	**2006**	**2006**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro (1)	**Reported NIS**		**Convenience translation into Euro (1)**	**Reported NIS**		
Profit for the period	311	1,778	1,266	66	378	665	2,123
Adjustments necessary to show the cash flows from operations (Appendix A)	(847)	(4,841)	(5,202)	336	1,922	(5,814)	(6,930)
Cash flows provided by (used in) operating activities	*(536)*	*(3,063)*	*(3,936)*	*402*	*2,300*	*(5,149)*	*(4,807)*
Sale of (investment in) marketable securities, net	(2,598)	(14,844)	2,102	1,600	9,143	2,466	2,106
Changes in restricted cash, net	-	-	2,300	-	-	2,300	2,300
Purchase of property and equipment	(280)	(1,598)	(626)	(100)	(573)	(234)	(1,865)
Sale of equipment	-	-	33	-	-	33	48
Investment in long-term deposits	(24)	(138)	(74)	(11)	(60)	(74)	(176)
Repayment of long-term deposits	7	40	2	1	5	-	38
Investment in other assets and deferred expenses	(662)	(3,783)	(110)	(336)	(1,923)	(72)	(156)
Cash flows provided by (used in) investing activities	*(3,557)*	*(20,323)*	*3,627*	*1,154*	*6,592*	*4,419*	*2,295*
Repayment of long-term loans from banks and others	(100)	(569)	(70)	(100)	(293)	(35)	(125)
Short-term credit from banks, net	-	-	-	-	-	(1)	(1)
Repayment of convertible bonds	(1,678)	(9,587)	(309)	(1,608)	(9,187)	(309)	(1,000)
Purchase of company shares by the company	(18)	(100)	(67)	(17)	(100)	-	(2,066)
Receipts on account of warrants	-	-	-	-	-	-	462
Bonds issue	-	-	-	-	-	-	29,606
Cash provided by (used in) financing activities	*(1,796)*	*(10,256)*	*(446)*	*(1,677)*	*(9,580)*	*(345)*	*26,876*
Change in cash and cash equivalents	*(5,889)*	*(33,642)*	*(755)*	*(121)*	*(688)*	*(1,075)*	*24,364*
Cash and cash equivalents at beginning of period	6,985	39,906	15,542	1,217	6,952	15,862	*15,542*
Cash and cash equivalents at end of period	*1,096*	*6,264*	*14,787*	*1,096*	*6,264*	*14,787*	*39,906*

(1) See note 2D.

The notes to the financial statements form an integral part thereof.

Unitronics (1989) (R"G) Ltd.
Consolidated
Statements of Cash Flows

	For the six months period ended June 30,	*For the six months period ended June 30,*		*For the three months period ended June 30,*	*For the three months period ended June 30,*		*For the year ended December 31,*
	2007	**2007**	**2006**	**2007**	**2007**	**2006**	**2006**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro (1)	**Reported NIS**		**Convenience translation into Euro (1)**	**Reported NIS**		
Adjustments-Appendix A necessary to show the cash flows from operations							
Depreciation and amortization	377	2,152	1,472	187	1,067	700	3,610
Loss (profit) from marketable securities, net	(79)	(449)	(378)	(83)	(472)	288	867
Benefit arising from warrants granted	-	-	11	-	-	11	11
Capital gain	-	-	(33)	-	-	(33)	(23)
Increase in accrued severance pay, net	50	284	467	26	150	222	282
Deferred taxes, net	-	-	85	-	-	64	85
Long-term debt and convertible bonds exchange rate differences	43	244	133	67	384	(799)	(352)
Increase in accounts receivable - trade	(2,419)	(13,821)	(2,096)	(492)	(2,809)	(1,439)	(5,572)
Decrease (increase) in accounts receivable - other	(63)	(360)	(31)	138	786	998	463
Decrease (increase) in inventory	134	765	(5,725)	(125)	(714)	(1,362)	(4,212)
Decrease (increase) in work in progress- inventory	5	27	(19)	102	585	(19)	(194)
Increase (decrease) in accounts payable - trade	620	3,545	2,976	408	2,329	(2,942)	(1,034)
Increase (decrease) in accounts payable - other	485	2,772	(2,064)	108	616	(1,503)	(861)
	(847)	*(4,841)*	*(5,202)*	*336*	*1,922*	*(5,814)*	*(6,930)*

(1) See note 2D.

The notes to the financial statements form an integral part thereof.

Notes to the Financial Statements of Unitronics (1989) (R"G) Ltd.

Note 1 - General

These financial statements have been prepared in a condensed format as of June 30, 2007, and for the periods of six and three months then ended ("interim financial statements"). These financial statements should be read in conjunction with the Company's audited annual financial statements and accompanying notes as of December 31, 2006 and for the year then ended.

Note 2 - Significant Accounting Policies

A. The interim financial statements have been prepared in accordance with generally accepted accounting principles for the preparation of financial statements for interim periods, as prescribed in Accounting Standard No. 14 of the Israel Accounting Standards Board.

The significant accounting policies and methods of computation followed in the preparation of the interim financial statements are identical to those followed in the preparation of the latest annual financial statements, except as explained in Note E.

B. The company prepares its financial statements according to chapter D to the Securities Regulations (Periodic and Immediate Reports) - 1970.

C. Following are data regarding the Israeli CPI and the exchange rate of the U.S. dollar and the Euro:

As of	**Israeli CPI**	**Exchange rate of One U.S. dollar**	**Exchange rate of One Euro**
	Points (*)	**NIS**	**NIS**
June 30, 2007	186.67	4.249	5.7132
June 30, 2006	187.92	4.440	5.6435
December 31, 2006	184.87	4.225	5.5643
Change during the period	**%**	**%**	**%**
June 2007 (six months)	0.97	0.57	2.67
June 2006 (six months)	1.55	(3.54)	3.62
June 2007 (three months)	1.21	2.26	3.23
June 2006 (three months)	0.97	(4.82)	(0.32)
December 2006 (12 months)	(0.10)	(8.21)	2.16

(*) The index on an average basis of 1993 = 100.

Note 2 - Significant Accounting Policies (cont')

D. Convenience translation in EURO

For the convenience of the reader, the reported NIS amounts for the last reported period have been translated in EURO by dividing each reported NIS amount by the representative rate of exchange of the EURO as at June 30, 2007 (EURO 1 = NIS 5.7132).

The translated EURO amounts presented in these financial statements should not be construed as representing amounts receivable or payable in EURO unless otherwise indicated.

E. Initial application of new Accounting Standards

1. Accounting standard No. 26 - "Inventories"

Since January 1, 2007 the company implements Accounting Standard No. 26 of the Israel Accounting Standards Board - "Inventories" ("the Standard"), which prescribes principles of recognition and measurement of inventories.

The initial application of the new Standard had no material effect on the interim consolidated financial statements.

2. Accounting standards No. 27 - "Fixed Assets" and No. 28 - amendment of the transitional orders in Accounting standard No. 27 - "Fixed Assets"

Since January 1, 2007 the company implements Accounting Standards No. 27 - "Fixed Assets" and No. 28 - amendment of the transitional orders in Accounting standard No. 27 - "Fixed Assets" ("the standards"), which prescribes the accounting treatment of fixed assets in the financial statements.

The initial application of the new Standard had no material effect on the interim consolidated financial statements.

3. Accounting Standard No. 23 - "Accounting treatment of transactions between an entity and a controlling shareholder in it"

Since January 1, 2007 the company implements Accounting Standard No. 23 of the Israel Accounting Standards Board - "Accounting treatment of transactions between an entity and controlling shareholder in it" ("the Standard").

The Standard determines the accounting treatment of transactions between an entity and a controlling shareholder in it. The standard is applicable to transactions, among others, of transferring assets, receiving liabilities, compensation and loans between an entity and a controlling shareholder in it and between companies under common control which where performed after January 1, 2007 and loan received or given from controlling shareholder before January 1, 2007.

The standard is not applicable to transaction of a business combination under common control.

Note 2 - Significant Accounting Policies (cont')

4. Accounting Standard No. 30 - "Intangible Assets"

Since January 1, 2007 the company implements Accounting Standard No. 30 of the Israel Accounting Standards Board - "Intangible Assets" ("the Standard").

The Standard sets forth the accounting treatment of intangible assets and defines how to measure the book value of these assets, while detailing the disclosure required in accordance with the transitory provisions of the Standard. Adoption of the Standard will be done retroactively, apart from the following details regarding business combinations. The Standard will be applied regarding business combinations which occurred on January 1, 2007 or thereafter; while regarding the Research & Development Project in process, which was purchased in the framework of the business combination, which occurred prior January 1, 2007 and meets the definition of an intangible asset on the date of acquisition and was posted as an expense on the acquisition date, the Company will recognize it, on January 1, 2007, as a Research & Development Project asset in progress while relating the relevant taxes.
The Standard stipulates that an intangible asset will be recognized if, and only if, it is expected that the future economic forecasted benefits, which can be related to the asset, will flow to the entity and the cost of the asset can be reliably measured.

E.

A Research & Development asset will be recognized according to the amount estimated on the date of the acquisition less amortization which would have accumulated had it been amortized from the date of the acquisition until December 31, 2006, according to the useful life of the asset, and less losses from any impairment in value accumulated; the adjusted amount will be posted to retained earnings on January 1, 2007.

As a result of the implementation of the standard an intangible asset was recognized in the reported period relating to development costs at an amount of approximately NIS 3,763 thousands (Euro 336 thousands) (unaudited), which meets the terms for recognition as an intangible asset.

F. Disclosure of the effects of new Accounting Standards prior to their adoption

Accounting Standard No. 29 - "Adoption of International Financial Reporting Standards (IFRS)"

In July 2006, the Israel Accounting Standards Board published Accounting Standard No. 29 -"Adoption of International Financial Reporting Standards (IFRS)" ("the Standard").
International Financial Reporting Standards comprise standards and interpretations adopted by the International Accounting Standards Board, and include:

a) International Financial Reporting Standards (IFRS)
b) International Accounting Standards (IAS)
c) Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by its predecessor, the Standing Interpretations Committee (SIC).

Pursuant to the Standard, companies that are subject to the provisions of the Securities Law, 1968, and that are required to report according to the regulations published thereunder, will be required to prepare their financial statements in accordance with IFRS starting from the period commencing on January 1, 2008. These companies, as well as other companies, may adopt IFRS early and prepare their financial statements in accordance with IFRS starting with financial statements that are issued subsequent to July 31, 2006.

For transition purposes, companies that prepare their financial statements in accordance with IFRS will be required to adopt the provisions of IFRS 1, "First-time Adoption of IFRS".

A company that adopts IFRS commencing from January 1, 2008, and that has elected to include comparative data for only one year (2007) will be required to prepare an opening balance sheet as of January 1, 2007 ("Opening IFRS Balance Sheet"). The Opening IFRS Balance Sheet will require the following:
- Recognition of all assets and liabilities whose recognition is required by IFRS.
- De-recognition of assets and liabilities if IFRS do not permit such recognition.
- Classification of assets, liabilities and components of equity according to IFRS.
- Application of IFRS in the measurement of all recognized assets and liabilities.

In order to ease first-time adoption, a number of exemptions from IFRS have been granted in respect of the Opening IFRS Balance Sheet, which exemptions may be elected, in whole or in part. Exceptions have also been established which prohibit retrospective application of certain aspects of IFRS.

According to the Standard, the Company is required to include in a note to the annual financial statements as of December 31, 2007, a balance sheet as of December 31, 2007, and a statement of income for the year then ended, that have been prepared based on the recognition, measurement and presentation criteria of IFRS.

Note 3 - Subsequent events

In December 2006, the company and its subsidiary were added to the claim against the city of Hoboken regarding the automated parking system.
In July 17, 2007 a conciliation agreement was signed by the parties and received the validity of a court ruling by a US court on July 20, 2007. The principles of the conciliation: a mutual withdrawal claims and allegations in connection with the dispute, without paying any compensation.

Note 4 - Business segments

A. Revenues

Unitronics (1989) (R"G) Ltd. Consolidated	***For the six months period ended June 30,***	***For the six months period ended June 30,***		***For the three months period ended June 30,***	***For the three months period ended June 30,***		***For the year ended December 31,***
	2007	**2007**	**2006**	**2007**	**2007**	**2006**	**2006**
	(unaudited)	**(unaudited)**		**(unaudited)**	**(unaudited)**		**(audited)**
				(in thousands)			
	Convenience translation into Euro	**Reported NIS**		**Convenience translation into Euro**	**Reported NIS**		
Products	4,740	27,079	26,798	2,454	14,019	13,976	53,711
System integration projects	4,922	28,123	16,546	2,398	13,702	8,778	40,370
Other	56	321	323	30	170	173	700
	9,718	*55,523*	*43,667*	*4,882*	*27,891*	*22,927*	*94,781*

B. Segment results

Products	1,151	6,578	8,600	541	3,091	4,293	17,427
System integration projects	340	1,945	1,893	22	127	1,001	4,247
Other	(23)	(131)	52	(13)	(75)	36	57
Unallocated corporate expenses	(765)	(4,373)	(7,099)	(355)	(2,028)	(3,582)	(14,719)
Operating profit	*703*	*4,019*	*3,446*	*195*	*1,115*	*1,748*	*7,012*

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